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Market Development Reports

Nigeria's Dairy Market

2007

Approved by:

Ali A. Abdi, Agricultural Attache
U.S. Consulate, Lagos

Prepared by:

Levin Flake, Uche Nzeka

Report Highlights:

Nigeria is a potential market for 1.3 million tons of milk valued about \$3 billion (Industry source). Of Nigeria's estimated 1.3 billion liters of total domestic fluid milk production in 2006, only about 600,000 liters (worth about \$1.5 million) entered formal marketing channels. Dairy imports were valued at about \$275 million in 2006. High cost production and low-yielding genetics have retarded the sector's growth. Imports of processed dairy products will continue to increase as rising incomes boost demand, and domestic production continues to be insufficient. Domestic production is expected to increase significantly only if local infrastructure is improved and production costs are lowered.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Lagos [NI1]
[NI]

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SECTION I. MARKET OVERVIEW

Nigeria is a potential market for 1.3 million tons of milk valued at about \$3 billion (Industry source). Total domestic production was an estimated 1.3 billion liters in 2006, but according to a GON provisional report, only 600,000 liters (valued \$1.5 million) entered formal marketing channels in 2006. The rest was either consumed within families or traded informally among the producing communities. Milk powder and other processed dairy products valued approximately \$275 million were imported into the country in 2006.

Growing population, increasing urbanization, and rising per capita income are expected to stimulate rising demand for dairy based products. Meanwhile, domestic production remains insufficient due to increasing production/processing costs, non-competitiveness of the industry, and the failure to incorporate more advanced technologies.

More efficient dairy processing in the United States should provide U.S. suppliers an advantage over third-country suppliers in exporting processed dairy products to this market. Additionally, there is export potential for livestock genetics, fodders and dairy-based food processing inputs which will likely increase if local infrastructure is improved and production/processing costs lowered.

Advantages and Challenges:

Advantages	Disadvantages
Huge export potentials—Nigeria's large population growing at 3 percent per annum and increasing per capita income.	Limited knowledge of the Nigerian dairy market among the U.S. trade.
The United States' more efficient production systems/better technologies for increased livestock and dairy productivity.	Nigeria's mass market dominated by low-income consumers.
Increasing demand for convenience-type dairy products due to rising income and continued massive rural-urban migration.	Higher price of fluid milk from the U.S. compared to other sources and competition from Australia, New Zealand, South American and East European countries.
Nigerian consumers' positive perception of U.S. higher quality products.	GON's unstable policies and inadequate commitment to developing Nigeria's dairy market.
Increasing demand for high quality dairy inputs by local processors to improve outputs and meet the tastes of high-income consumers.	Limited local infrastructure, limited operational capital and high local production cost.
Nigerian firms generally perceive U.S. suppliers as a reliable source in terms of volume, standards and quality.	Nigeria's cattle production dominated by traditional and conservative pastorals, which makes adoption of modern technology difficult.
Relatively lower FOB prices for higher quality processed dairy products and ingredients from the U.S.	Limited contact and negative perceptions about Nigerian businesses among U.S. exporters.
Increasing desire by Nigerian consumers to upgrade diets through more protein intakes.	High cost of capital and almost non-existence of medium- and long-term financing through local banks.
Traditional cattle management becoming expensive, non-feasible and a stimulating demand for improved fodders.	High cost of animal health care and management (accounting for more than 15 percent of total production costs). High-cost fodder processing for both cross and pure cattle breeds.
Relatively low import tariffs on processed dairy products and livestock genetics.	Limited pasteurization centers (located miles away from farms) hamper cooperative activities for milk collection.

SECTION II. ROAD MAP FOR ENTRY

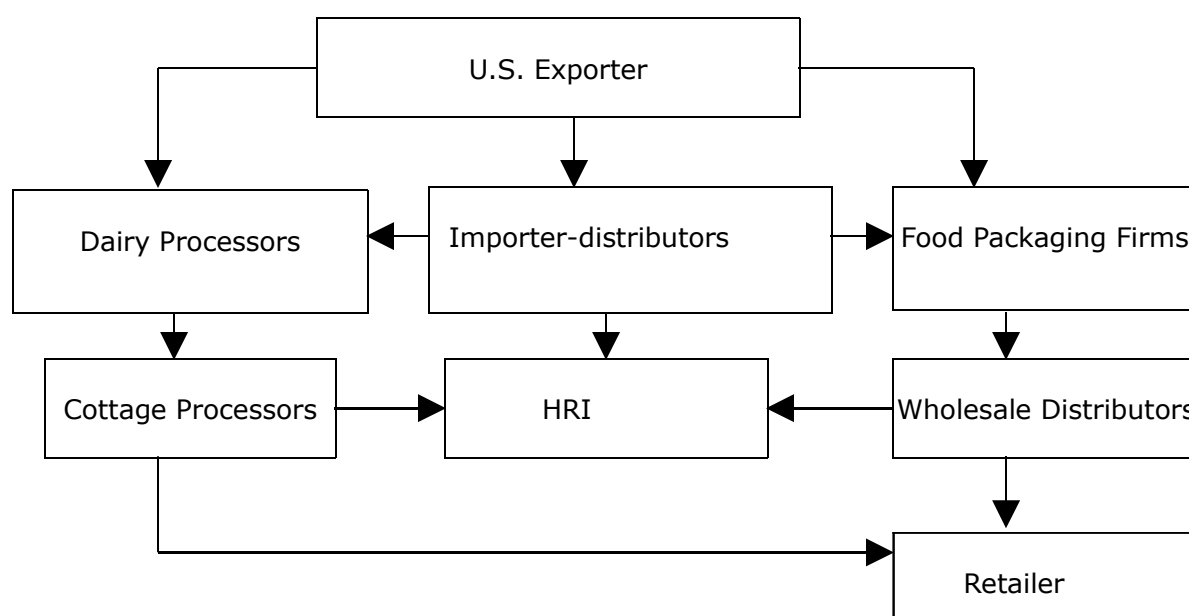
Entry Strategy:

Nigeria's food regulatory agency (NAFDAC) requires exporters to appoint a local firm to represent them (Ref: FAS Lagos GAIN report #: NI7016). New-to-market U.S. dairy firms can enter the market through:

1. Partnering with full-line dairy processors
2. Direct sale to dairy packaging firms
3. Direct sale to Importer-distributors

The flowchart below illustrates entry and distribution channels for imported dairy products in Nigeria:

Market Entry & Distribution Flowchart for Dairy Products



U.S. exporters should contact the Agricultural Attaché, American Consulate, Lagos, Nigeria for assistance in finding local representatives for their products.

Market Size, Structure & Trends

Nigeria is a potential market for 1.3 million tons of milk valued about \$3 billion (Industry source). Industry sources also estimate Nigeria's national herd at 14 million heads (including approximately 900,000 milking cows) in 2006. Average yield from this traditional system is 4 liters of fluid milk per day amounting to 1.3 billion liters of total domestic production in 2006.

The "White Fulani" or "Bunaji" breeds are dominant. The local herdsman (mostly in the dry northern Nigeria) own and maintain the majority of the cattle and the cattle are fed on natural grass under the traditional system. Migrant pastorals move flocks over months and many miles to find pasture during the dry season, which often results in weight loss, low-yields and sickness. A few commercial livestock farms maintain crossbreeds of Holstein Friesians, Brown Swiss and Montpelier for fluid milk production and the average yield is 18 liters of raw fluid milk per day (compared to the national average of only 4 liters). The

foundation stocks are mostly imported from South Africa, Europe, Australia, etc. Average yield of pure breeds is 30 liters per day.

According to GON provisional report, only about 600,000 liters of domestic production (valued approximately \$1.5 million) entered formal marketing channels through the milk-collection co-operatives of migrant herdsman and the output of the few commercial dairy farms in 2006. The rest is either consumed within producing families or traded informally within the producing communities. Imports of milk powder and other processed dairy products were estimated at \$275 million last year.

Currently, most of Nigeria's dairy processors import milk powder and re-constitute it into liquid milk and other dairy products such as yoghurt, ice cream and confectioneries. Others repackage imported powdered milk into small affordable sachets. Multi-national firms including Frieslandfoods (Netherlands), Glanbia (Ireland), Cussons-PZ (UK), Promasidor, etc; have either partnered or acquired some Nigerian dairy firms for re-constituting and/or packaging imported milk powder.

Chart below shows Nigeria's leading dairy processing firms and market shares:

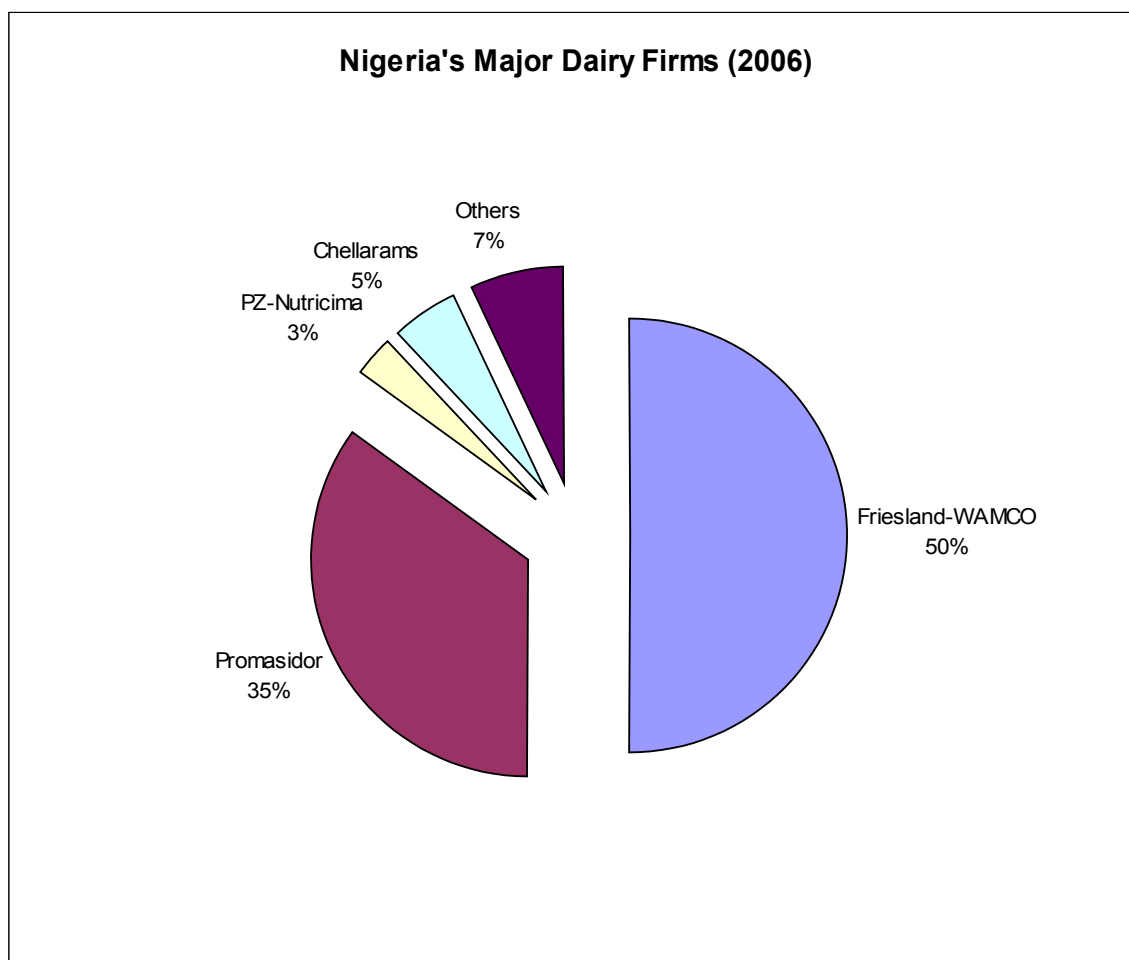


Table below shows proportions of Nigeria's major dairy imports in 2006:

Nigeria's Dairy Imports (2006)

Types	Shares (%)
Full Cream	75
Butter	8
Cheese	5
Skimmed	5
Fresh	2
Others	5
Total	100

(Source: industry)

Nigeria imports dairy products (mostly milk powder) from New Zealand, Australia, South America, the EU, India, Ukraine, Poland, and other smaller suppliers. More efficient U.S. dairy-processing technology offers U.S. suppliers an export advantage over third-country suppliers for processed dairy products such as skimmed and low-fat milk powder, butter, cheese, and milk ingredients. Local demand for these products is increasing due to Nigeria's rising income. The value of the U.S. dairy exports to Nigeria increased from approximately one million dollars in 2005 to over six million dollars in 2006 (Source: USDA's BICO report).

Increasing exports of U.S. processed dairy products to Nigeria could continue with Nigeria's rising incomes and the low-level of local production and processing. Exports of U.S. livestock genetics and fodders to Nigeria could also increase if local infrastructure improves.

SECTION III. COSTS AND PRICES

Local Dairy Products:

- Average farm gate price of raw fluid milk is 40 cents per liter.
- Average market price of pasteurized fresh milk is \$2.50 per liter.
- Average profit on local dairy processing is 8 percent of production cost.

Imported dairy products:

- Average FOB price of is \$2,000 per ton.
- Average clearing costs including tariffs (see Appendix II for tariffs), port inspections charges and land haulage (to warehouse), \$415 per ton.
- Average warehousing, processing and marketing/distribution costs, \$365 per ton.
- Average market cost, \$3,000 per ton.
- Average market price, \$3,450 per ton.
- Average profit on imported milk powder processing/marketing is 15 percent per ton.

(Note: One 20-foot container contains an average of 17 tons of Whole Milk Powder (WMP). Imported WMP are mostly loaded and sold in bags of 25 kg).

Live Cattle:

- Cost of imported Holstein Friesian and Brown Swiss breeds range from \$2,800 to \$3,500 per ton (live weight).
- Average cost of local breeds is \$650 per ton (live weight).
- Import duty is twenty (20) percent and tax/surcharges range between 5 and 10 percent of cost.
- It costs about \$5 per day to feed a cow (breeds of imported Holstein Friesians, Brown Swiss and Montpelier) on quality local processed fodder.

SECTION IV. MARKET ACCESS**Regulations****Dairy products:**

NAFDAC inspects and approves imported dairy products prior to delivery to processor or importer's facilities. NAFDAC also inspects the storage and processing of dairy products and issues approval for marketing and consumption. Since March 2006, imported dairy products are also subjected to destination inspection at any of Nigeria's ports of entry. Please refer to GAIN report #: NI7016 (FAIRS Report) for details.

Live Cattle:

The Federal Department of Livestock Services of Nigeria's Federal Ministry of Agriculture and Rural Development is GON's regulatory agency for live cattle imports into Nigeria. The agency issues Import Permits (at no charge) to individuals and firms after certification of the farms and/or countries of origin.

SECTION V: POST CONTACT AND FURTHER INFORMATION:**1. Agricultural Affairs Office (USDA/FAS)**

American Consulate General
#2, Walter Carrington Crescent
Victoria Island, Lagos-Nigeria
Tel/Fax: 234 -1 - 261-3926, 775-0830
E-mail: - aglagos@usda.gov
Website: www.fas.usda.gov/

2. National Agency for Food & Drug Administration & Control (NAFDAC)

Plot 204, Olusegun Obasanjo Way
Wuse Zone 7
Abuja-Nigeria
Telephone: (234) 9 234-6383, 234-6405-6
Fax: (234) 9 269-5163, 234-8382
e-mail: nafdac.lagos@alpha.linkserve.com
Website: www.NAFDAC.org

3. Nigeria Customs Service

Customs Headquarters
3-7, Abidjan Street
Off Sultan Abubakar Way
Wuse Zone 3
Garki-Abuja, Nigeria
Tel: 234-9-5236394, 2534680
Fax: 234-9-5236394, 5234690

4. Federal Ministry Of Agriculture and Water Resources

Federal Secretariat, FCDA
PMB 135, Area 11
Garki-Abuja, FCT
Nigeria
Tel: (234) 9-314-1931, 314-2405
Fax: (234) 9-314-2532

Appendix I: Nigeria's Economic Structure (Annual Indicators)

	2002*	2003*	2004**	2005**	2006**
GDP (US\$ bn)	46.7	58.4	74.0	95.3	116.6
Real GDP growth (%)	3.7	10.2	6.1***	4.8	5.6**
Consumer price inflation (av; %)	13.0	14.1	15.0	17.9	7.5
Population (m)	129.9**	133.2**	136.5	139.8	144.0
Exports of goods fob (US \$ m)	17,672	27,250	37,326	51,897	58,872
Imports of goods fob (US\$ m)	-13,631	-17,193	-19,133	-25,995	-27,402
Current account balance (US\$ m)	-5,400	-1,569	3,606	7,112	15,810
Foreign exchange reserves excluding gold (US\$ m)	7,331	7,128	16,956	28,280	42,277
Total external debt (US\$ bn)	30.5	35.0	37.9	22.2	6.5
Debt-service ratio, paid (%)	7.4	5.5	4.2	16.1	1.8
Exchange rate (av.) N: US\$	120.58	129.22	132.89	131.20	127.38

Notes: Actual. ** Economic Intelligence Unit estimates. *** Official Estimates.
'N', represents Naira (Nigeria's currency).

Source: Economist Intelligence Unit, Country Report (Nigeria)—May 2007.

Appendix II: Tariff for Dairy Produce; birds' eggs; natural honey; Edible products of animal origin, Not elsewhere specified or included.

Notes.

1. - The expression "milk" means full cream milk or partially or completely skimmed milk.
2. - For the purposes of heading 04.05:
 - (a) The term "butter" means natural butter, whey butter or recombined butter (fresh, salted rancid, including canned butter) derived exclusively from milk, with a milk fat content of 80% or more but not more than 95% by weight, a maximum milk solids-not-fat content of 2% by weight and a maximum water content of 16% by weight. Butter does not contain added emulsifiers, but may contain sodium chloride, food colors, neutralizing salts and cultures of harmless lactic-acid-producing bacteria.
 - (b) The expression "dairy spreads" means a spread-able emulsion of the water-in-oil type, containing milk fat as the only fat in the product, with a milk fat content of 39% or more but less than 80% by weight.

3. - Products obtained by the concentration of whey and with the addition of milk or milk fat are to be classified as cheese in heading 04.06 provided that they have the following three characteristics:

- (a) Milk fat content, by weight of the dry matter, of 5% or more;
- (b) A dry matter content, by weight, of at least 70% but not exceeding 85%; and
- (c) They are moulded or capable of being moulded.

3. - This Chapter does not cover:

- (a) Products obtained from whey, containing by weight more than 95% lactose, expressed as anhydrous lactose calculated on the dry matter (heading 17.02); or
- (b) Albumins (including concentrates of two or more whey proteins, containing by weight more than 80% whey proteins, calculated on the dry matter) (heading 35.02) or globulins (heading 35.04).

Subheading Notes:

1. - For the purposes of subheading 0404.10, the expression "modified whey" means products consisting of whey constituents i.e. whey from which all or part of the lactose, proteins or minerals have been removed, whey to which natural whey constituents have been added, and products obtained by mixing natural whey constituents.
2. - For the purposes of sub-heading 0405.10 the term "butter" does not include dehydrated butter or ghee (subheading 0405.90).

HEADING/ H.S. CODE	DESCRIPTION	SU	NG DUTY RATE
04.01	Milk and cream, not concentrated nor containing added sugar or other sweetening matter.		
0401.1000.00	- Of a fat content, by weight, not exceeding 1%	kg	20
0401.2000.00	- Of a fat content, by weight, exceeding 1% but not exceeding 6%.....	kg	20
0401.3000.0	- Of a fat content, by weight, exceeding 6%...	kg	20

0402	Milk and cream, concentrated or containing added sugar or other sweetening matter: - In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%:		
0402.1000.11	-- In powder form.....	kg	5
0402.1000.19	-- In granules or other solid forms.....	kg	20
	- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:		
0402.2100.22	-- Other containing added sugar or other sweetening matter:	kg	5
		kg	20
0402.2100.23	--- Whole milk powder, 28% fat content.		
0402.2900.24	--- Other, including granules or other solid forms. -- Other:		
0402.2900.29	--- Instant full cream powder, 26% fat content	kg	5
0402.9100.00	--- Other.....	kg	20
	- Other:		
0402.9900.00	-- Not containing added sugar or other sweetening matter.....	kg	20
	-- Other.....	kg	20
04.03	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.		
0403.1000.00	- Yogurt..... - Other:	kg	20
0403.9000.91	-- In powder form	kg	5
0403.9000.91	-- In other forms	kg	20

04.04	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.		
0404.1000.00	- Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter.....	kg	20
0404.9000.00	- Other.....	kg	20
0405	Butter and other fats and oils derived from milk; dairy spreads.		
0405.1000.00	- Butter.....	kg	20
0405.2000.00	- Dairy spreads.....	kg	20
	- Other:	kg	5
0405.9000.91	-- Anhydrous Milk Fat	kg	20
0405.9000.99	-- Other.....	kg	20
04.06	Cheese and curd.		
0406.1000.00	- Fresh (un-ripened or uncured) cheese, including whey cheese, and curd.....	kg	20
0406.2000.00	- Grated or powdered cheese, of all kinds....	kg	20
0406.3000.00	- Processed cheese, not grated or powdered.....		
0406.4000.00	kg	20
0406.9000.00	- Blue-veined cheese.....	kg	20
	- Other cheese.....	kg	20

Source: Nigerian Version of ECOWAS Common External Tariff (CET) tariff book